

Increasing Opportunities for U.S. Environment-Based Business

Environmental Framework Papers

The Center for Environment
USAID Bureau of Global Programs,
Field Support, and Research, Washington, DC 20523-1812
January 1997

Environmental Framework Papers

Increasing Opportunities For U.S. Environment-Based Business

Protecting the environment and promoting U.S. economic interests -- both of vital concern to Americans -- are major U.S. foreign policy objectives. For this reason, they are also important objectives of USAID, the foreign assistance arm of the U.S. government.

USAID has been promoting environmental protection and improvement in developing countries for more than a decade. This in turn has provided the Agency with numerous opportunities to encourage favorable conditions for, and otherwise promote the sale of, U.S. environment-related products, services, and technologies. This document sets forth the Agency's work in environmental business promotion by describing:

- * Opportunities for environmental business in developing countries
- * USAID's approach to promoting U.S. environment-based business
- * Results of the Agency's efforts
- * Lessons learned

Opportunities For Environmental Business In Developing Countries

The environmental problems of developing countries and countries with economies in transition (such as those in the former Eastern Bloc) are legion. They require determined, focused solutions. Levels of air and water pollution greatly exceed the standards of the World Health Organization. Rising energy consumption and the great inefficiencies of energy use will soon make these industrializing nations the primary contributors of the GHG emissions associated with global warming. In addition, more than half of the world's poor people will soon live in urban areas with wholly inadequate environmental services, such as sanitation, solid waste disposal, etc.

All of these problems create inherent markets of enormous size for environment-related products, services, and technologies - including those of U.S. companies, which are worldwide leaders in the environmental field. The global market for such products and services is currently \$295 billion per year and is expected to grow to \$600 billion by the end of the decade. Moreover, more than 60 percent of this market lies outside the U.S., with developing and "transition-economy" countries, such as those in Eastern and Central Europe, experiencing the fastest growth. In Asia, the market is growing by 17 percent per year. In Latin America, the growth rate is 12 percent.

The environmental protection and improvement activities of agencies like USAID can do much to promote sales, trade, and investment opportunities for U.S. firms. When USAID promotes environmentally sound economic development, the demand for environment-related technologies and services expands in U.S.-assisted countries. When USAID provides management and technical training to these countries, the understanding and appreciation of sophisticated technologies increases, as does the willingness to invest in environmental improvement.

USAID's Approach To Promoting U.S. Environment-Based Business

USAID uses a number of approaches to create demand for U.S. environment-related services and technologies in countries receiving U.S. foreign assistance, including the following.

- * **Promoting "enabling environments"** -- Much of USAID's environment-related work revolves broadly around encouraging the institutions and mechanisms of free-market economies and, more narrowly, around encouraging policies, laws, and regulations that create a legal framework for sound environmental management. The former, which includes everything from deregulation of domestic energy prices to lowering artificial trade barriers, improves the conditions for sales, investment, and trade for U.S. firms. The latter, both directly and indirectly, creates demand for environment-related services and technologies.
- * **Providing technical assistance and training** -- USAID environment-related programs provide a wide range of technical

assistance, technical and managerial training, and institution and capacity building. These activities further strengthen a framework within which sound environmental policies and practices can "take hold" in developing countries.

*** Introducing U.S. services and technologies** -- Much of the U.S. foreign aid budget is spent to procure a variety of U.S. goods and services. Thus, some USAID programs help American firms enter or improve their markets in U.S.-assisted countries by introducing U.S. technologies and practices through direct purchase. Many Agency programs also help demonstrate the value and applications of U.S. environment-related services and technologies. By building awareness among important government and business audiences in this manner, these programs help create the basis for future sales.

*** Promoting private sector partnerships** -- Still other Agency programs and activities involve working in partnership with the U.S. private sector and with the private sector of developing countries, as well as with U.S. trade associations, to promote environmentally sound economic development in U.S.-assisted countries. In this manner, U.S. firms and their representative organizations accumulate awareness of local markets and opportunities and develop crucial relationships in both host-country governments and in the private sectors of these countries.

Results Of The Agency's Efforts

USAID has measurably increased market opportunities abroad for U.S. environmental firms through its development assistance programs. For example, the Agency's programs have:

*** facilitated private sector participation in the delivery of electric power and environmental services including water supply, wastewater treatment, and solid waste management:** in the power sector alone, USAID has helped open a market exceeding \$50 billion per year in developing countries;

*** identified environmental trade and investment opportunities:** in Indonesia alone, USAID identified more than \$590 million in potential contracts for environmental technology goods and services in the past year, and more than \$18 million in contracts have already been awarded to U.S. firms; and

*** purchased U.S. goods and services directly:** in 1993, USAID programs procured \$10 billion in U.S. goods and services for use throughout the world, which translated into some 200,000 U.S. jobs.

Some specific USAID programs that promote environmentally sound economic development *and* encourage U.S. sales include the following.

Latin America: Promoting Public-Private Partnerships

USAID's *Initiative for Environmental Technology* (IET) was introduced in 1995. Its goal is to promote U.S. private sector involvement in fostering environmentally sustainable development. With a primary focus on Latin America, IET directs development assistance and investment to critical environmental problems in countries receiving U.S. foreign assistance. IET has several components, all of which involve partnerships with the U.S. private sector. The *Environmental Exchange Program* uses study tours and executive exchanges to bring together public and private sector officials from the U.S. and developing nations to solve environmental problems collaboratively. The *Latin American Fund for the Environment* provides small grants to encourage private sector investment in industrial energy efficiency, wastewater treatment, and pollution prevention. The *Environmental Technology Network for the Americas* (ETNA) distributes information on Latin American trade and investment opportunities to U.S. firms. The *U.S.-Latin America Partnerships Program* builds firm-to-firm linkages between U.S. and Latin American companies.

Asia: Promoting U.S. Technology

The Agency-led US-AEP matches the environmental needs of Asian industries and municipalities with U.S. environmental experience, technology, and know-how. The program works with 35 Asian and Pacific nations and territories. Sales of U.S. goods and services worth more than \$316 million have been realized as a direct result of US-AEP.

By the end of 1995, US-AEP had been organized around three major components: Clean Technology and Environmental Management (CTEM); Public Infrastructure in Urban Areas; and the Policy and Constituency Framework to sustain the momentum toward "clean" production. A newly strengthened adjunct, the Environmental Exchange Program (EEP), is designed to complement all three components.

Among the range of partners and activities that operate as part of US-AEP are the following;

- * The Technology Fund, administered by the National Association of State Development Agencies (NASDA) -- through the Fund, grants are awarded to small and medium-sized U.S. businesses to create demand for, and facilitate the transfer of, environmentally responsible and energy-efficient technologies to Asia and the Pacific; representatives of approximately 300 U.S. firms have been sent to Asia as a result, generating about \$303 million in sales;
- * the Offices of Technology Cooperation in Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Sri Lanka, Taiwan, and Thailand;
- * the Environmental Technology Network for Asia, which disseminates trade leads from throughout Asia to more than 2,500 U.S. environmental firms;
- * the State Environmental Initiative, through which the Council of State Governments promotes the transfer of U.S. environmental experiences, technology, and know-how to targeted Asian countries by matching specific U.S. technologies and the expertise of state regulatory agencies with identified areas of need;
- * the partnering of environmental professionals in the U.S. with their Asian counterparts (e.g., waste engineers, water and air quality engineers); and
- * incentive grants to encourage Asian businesses and NGOs to collaborate on joint projects.

Creating Private Power Opportunities

Regulatory policy reform is essential to creating an enabling environment for private sector participation in the commercial power sector and stimulating markets in developing countries for the kinds of "clean" and energy-efficient technologies that privately held power activities require. Between 1988 and 1993, for example, USAID's regulatory reform to privatize power systems resulted in the installation of roughly 30,000 MW of additional generating capacity in developing countries, representing an investment of more than \$25 billion. The U.S. is estimated to have captured approximately one-third of this market. The purpose of the Agency's efforts was development, not export. Yet the export impact of this activity (the leveraging of foreign assistance funds at a ratio of approximately 1,000 to 1) far surpassed the 100-to-1 ratio sought by U.S. export promotion programs.

Facilitating U.S. Investment

USAID's HG program extends loan guaranties to U.S. private investors who lend to finance the build-up of environmental infrastructure and services in Agency-assisted countries, mostly in urban areas. The program identifies profitable investments for U.S. private lenders in nations in which there is a huge need for improved urban environmental services, but little available local capital. The results are dramatic: \$7 of privately financed investment has been generated for each \$1 spend by the HG program in loan guaranties.

Building International Linkages

The USAID-funded Utility Partnerships Program helps establish international partnerships between U.S. and foreign utilities. Established in the early 1990s, these partnerships involve exchanges focused particularly on environmental problems facing electric utilities in developing countries and countries whose economies are in transition. For example, the United States Energy Association (USEA) has successfully paired major U.S. utilities with counterpart organizations throughout Central and Eastern Europe and the former Soviet Union, as well as in India, Indonesia, and the Philippines. Through this program, the participating U.S. utilities are building contacts and relationships that will pay dividends in future years in terms of direct procurement and consulting contracts from these partner utilities.

Financing Environmental Enterprises

The Environmental Enterprises Assistance Fund (EEAF) was created in 1990 to provide venture capital financing and entrepreneurial assistance to environmentally sound enterprises. In June 1996, EEAF was named as the primary manager of a \$10 million fund that is being established by the Multilateral Investment Fund of the Inter-American Development Bank to invest in environmental business in Central America. Partly as a result of USAID assistance, the financing for environmental trade and investment in Latin America is growing.

Lessons Learned

A number of lessons have been learned from USAID's efforts to increase opportunities for U.S. environment-based businesses.

*** Though governments in developing and "transition-economy" countries have a clear role to play in environmental management and improvement in their respective economies, private investment will be essential to meeting many of the environmental needs of these nations.**

*** For private firms, a long-term perspective is crucial to success in these markets. Private firms are far more likely to build a sustained market for their goods and services if they invest in developing local relationships and assist the developmental process.**

*** Development assistance can be a critical first step in building markets for U.S. environmental products and services.** It is crucial that U.S. foreign assistance programs work in partnership with the U.S. private sector to steer the development process. Through foreign aid, the U.S. helps develop the incentives that drive demand for sound environmental management and related technologies and services.

The Center for Environment

The Center for Environment, located in USAID's Bureau for Global Programs, Field Support, and Research, coordinates the Agency's environmental programs. The Center provides technical and programmatic leadership and support to the Agency, its field missions, and its domestic and international development partners on global and sustainable development problems.

The Center's portfolio focuses on program areas of Sustainable Living Resources, Sustainable Energy Systems, and Sustainable Cities, as well as on USAID's commitment to combating global climate change and loss of biodiversity. Activities under each program area emphasize the centrality of the U.S. national interest, the importance of public-private partnerships, and the equitable allocation of costs and benefits.

The Center for Environment oversees the Agency's activities with respect to increasing environment-based business opportunities, in cooperation with the policy and regional bureaus and USAID missions.

For more information on increasing opportunities for U.S. businesses, contact:

Carla Koppell
Office of Energy, Environment and Technology
Center for Environment
703/875-4047 703/875-4053 (fax)
ckoppell@usaid.gov